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## Common Market

### Regional Policy in the EC

by Dr Klaus Boeck, Hamburg \*

**On December 31, 1973 ends the first phase of the gradual realisation of an economic and monetary union which the EC-states undertook to form between themselves<sup>1</sup>. Till then the Ministerial Council will still have to take a number of basic decisions, which are regarded as essential for a successful conclusion of the first phase.**

**A**mong the basic problems which ought to have been resolved during phase one, and have not, is a decision concerning the setting up of a common regional fund. The Commission deduces its mandate for a common European regional policy from the EEC-Treaty. According to that treaty, "a harmonious development of the economic life" is to be one of the primary aims of European integration<sup>2</sup>, and this development is to be promoted by reducing the distance between certain individual regions and the backwardness of other less favoured areas<sup>3</sup>.

The authors of the Treaty of Rome, in giving such a high priority to regional policy, were probably motivated by the thought that the economic advance in Europe could best be achieved, if the populations of all regions in the Community were given a roughly equal chance to participate in that progress. This objective seems justified, and that not only for socio-political reasons, for to achieve it, is indeed an essential precondition for political union. Big differences between individual regions and states in the matter of employment and living standards — differences which may probably become even more pronounced as integration progresses — produce of necessity social tensions, and these could very quickly bring the Community face to face with the danger of political disruption. And yet, despite the priority expressly given in the EEC-treaty to a unified regional policy on a European scale, no such policy has as yet been evolved.

This does not mean, however, that the Commission since formation of the Community has remained completely inactive in the matter of regional policy. The contrary has been the case, for not only the EEC-Treaty but also the treaty setting up the European Coal and Steel Community provide the Commission with several means which enable it, within certain limits, actively to pursue a regional policy. Thus the Commission is

empowered by Article 56 of the Coal and Steel Community Treaty to grant credits at low interest rates for the purpose of creating job opportunities in other branches of industry for coal and steel workers. In this manner the Commission has so far contributed towards the creation of some 110,000 new jobs for coal and steel workers, while enabling nearly half a million of them to retrain for other occupations<sup>4</sup>.

Under the EEC-Treaty the Community has the possibility of financing out of Community funds — via the Agricultural Fund, the Social Fund and the European Investment Bank — important projects with a regional policy content. Via the Agricultural Fund 150 mn units of account (UA) have so far been spent on measures to modernise farming and raising the living standards of the farming population; the Social Fund has made available 265 mn UA for the resettlement and retraining of workers, and between 1958 and 1972 the European Investment Bank granted credits totalling 1,900 mn UA for regional development projects<sup>5</sup>.

These means of financing apart, the Commission can also directly influence the regional policies of member states through applying the EEC-rules governing competition. This applies mainly to the regulations concerning state subsidies. Such subsidies insofar as they falsify, or threaten to falsify, the relative competitive position of the various

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<sup>1</sup> Cf. Decision taken by the Council and the representatives of the governments of the member-states on March 22, 1971, concerning the gradual realisation of the economic and monetary union in the Community, in: Dieter G e h r m a n n and Sabine v. S a l d e r n, *Monetäre Integration in der EWG* (Monetary Integration in the EEC), Hamburg, 1972, p. 176.

<sup>2</sup> Cf. Article 2, EEC-Treaty.

<sup>3</sup> Cf. Preamble to EEC-Treaty.

<sup>4</sup> Cf. Commission of the European Communities, "Bericht über die regionalen Probleme in der erweiterten Gemeinschaft" (Report on regional problems in the enlarged Community), Com (73) 550 final, Brussels, 1973, p. 3.

<sup>5</sup> Ibid.

member states, are in principle incompatible with the aims of the Common Market. Certain exceptions are admissible as for instance subsidies granted for the purpose of "furthering the economic development of regions with exceptionally low standards of living or with considerable under-employment"<sup>6</sup>. In co-operation with member states, the Commission is currently reviewing however the existing regulations, governing the granting of aid and proposes suitable measures designed to further the continued development of the Common Market<sup>7</sup>. Basing itself on the authority vested in it, the Commission succeeded in getting all member states to agree as from January 1, 1972, that state subsidies for regional development should be restricted to 20 p.c. of the sums to be invested for such purposes<sup>8</sup>. It hoped by this means to counteract any tendency on the part of member states to persist in outbidding each other in the granting of state subsidies and to arrive at a more efficient use of state-aid funds. It must be added, however, that the rule restricting state aid to 20 p.c. applies only to the so-called central regions of the European Community; for the peripheral regions special regulations are to be worked out.

At first sight the Community's scope for actively pursuing a regional policy may seem to be rather wide. There is however one big snag; the available instruments cannot be used in the furtherance of a consistent regional policy, for regional aid is primarily undertaken in the pursuit of political aims in other sector policies. Thus the effects of various isolated regional aid measures are mere by-products of policy decisions primarily taken for other reasons. Much graver still is the fact that a whole range of urgent regional development problems such as for instance the industrialisation of backward farming areas in Europe simply cannot be adequately tackled with the available resources<sup>9</sup>.

### Regional Policy Receives Priority

The Commission has always been conscious of the inadequate nature of the implements it has at its disposal to carry out a regional policy. This is why it has for long been trying to create the necessary preconditions for a common regional policy. For an almost equally long time its proposals produced no response from the Council of Ministers. A drastic change in the Ministerial Council's attitude occurred only with the entry of the three

former EFTA-states, Denmark, Great Britain and Ireland, of which Great Britain and Ireland are faced with considerable regional development problems and are expecting the Community to assist them in solving these problems. Together with Italy they represent a political factor of considerable weight which the Community can no longer afford to ignore.

This clearly emerged from the communiqué issued at the end of the summit conference of October 1972. In that communiqué the participating heads of state and chiefs of government declared that they regarded the removal of "structural and regional imbalances capable of prejudicing the realisation of an economic and monetary union as a matter of high priority". They therefore asked the Commission to analyse the regional problems in the enlarged Community and put forward proposals for their solution. At the same time they undertook to co-ordinate their national regional policies and requested the Community to set up by December 31, 1973, a Fund for Regional Development, which with the beginning of the second phase of the economic and monetary union is to be financed from the Community's own resources<sup>10</sup>.

Acting on the Summit Conference's instructions, the Commission got to work on its "Report on the Regional Problems in the enlarged Community", tabling it as early as May 1973. The preamble to this report contains the Commission's proposals for a common regional policy programme. From this document it emerges that, in the Commission's opinion, the proposed common regional policy should not replace but supplement national regional policies. But these national regional policies should be more closely aligned to the objectives of the Common Market. This would seem to make coordination on a Community basis indispensable, if the most effective use possible is to be made of the resources made available for the purposes of a regional policy. To facilitate co-ordination of regional policies, the Commission proposes to set up a committee for regional development.

### Committee for Regional Policy

The proposed Regional Committee should consist of representatives of member states and of the Commission, the chair being taken by a representative of the member states, while the Commission would undertake the duties of the secretariat.

<sup>6</sup> Article 92, EEC-Treaty.

<sup>7</sup> Article 93, EEC-Treaty.

<sup>8</sup> Cf. first decision taken on October 20, 1971, by the representatives of the member-states meeting in council about the general rules governing aid for regional objectives, in: *Amtsblatt der Europäischen Gemeinschaften* (Official Bulletin of the European Communities), No. C 111, dated 4. 11. 1971.

<sup>9</sup> See also Klaus Böck, "Regionalpolitik — Eine Zukunftsaufgabe für die Gemeinschaft" (Regional Policy — a future task for the Community), in: "Wirtschaftspolitische Perspektiven in der erweiterten EWG" (Economic-political Perspectives of the enlarged EEC) (ed. by Hans-Eckart Scharrer); shortly to appear in Europa-Union Verlag.

<sup>10</sup> Cf. Declaration issued at close of EEC-Summit Conference in Paris, October 20, 1972, in German Federal Bank, Excerpts from press articles, No. 78, p. 3, issued on October 23, 1972.

With the assistance of this Committee, the Commission intends to establish a set of coordinated common regional policy aims and to start on a programme of concerted action for the realisation of these aims.

The Committee's main task will be to review the regional development programmes of individual member states. The purpose of that review is not only to harmonise the various national development programmes, but also to decide which projects should receive additional financial aid from Community resources. In proceeding in this manner, the Commission intends to achieve two things: Firstly, Community resources are only to supplement national aid measures, and, secondly, Community funds are to be made available only for projects for which help is most urgently needed. Whether the proposed procedure will be effective in attaining these objectives is still problematical inasmuch as the development programmes, which are to form the basis for the granting of Community resources, are to be drawn up by the individual member countries. How quickly this will be done and of what quality the programmes will turn out to be depends essentially on the competence of each country's staff of civil servants and the quality of its administrative machinery. In this context, Italy with its inflated, cumbersome bureaucracy is at a considerable disadvantage vis-à-vis its European partners<sup>11</sup>. It would therefore be conceivable that for instance a country like the Netherlands with its well organised planning staff may be able to produce the required programme much more quickly, thus benefitting more speedily from the common aid programme than Italy which, together with Ireland, has without doubt the most urgent need of such aid.

### The Regional Fund

The most important instrument for making Community funds available for regional purposes will be the Regional Fund, which is to be set up by the end of 1973. Originally the Commission conceived the Fund as a means of subsidising interest payments on credits granted by the European Investment Bank (EIB). The EIB is only empowered to lend money on terms similar to those obtainable in the open market, and for this reason its effect on promoting regional development has hitherto been relatively limited.

Subsequent negotiations about the way the Fund is to operate in future have meanwhile led to the suggestion that the Fund, in addition to subsidising interest rates, should also be allowed to pay capital bonuses. Suitable subjects for the Fund are to

be investments designed to improve a region's infrastructure as well as investments in industry, commerce and the service sector, and the financial help given may be of benefit to private as well as public investors<sup>12</sup>.

How much money the Fund is to be provided with has not yet been definitely decided. The Commission had originally estimated that during the first five years of its operations the Fund would require 50 mn UA per annum or 250 mn UA for the whole of the five year period. This estimate has since been drastically amended by George Thomson, the new Commissioner for Regional Policy. He is now asking for 2,250 mn UA for the first three years. A progressive increase in the Fund's resources from 500 mn UA in the first year, to 750 mn in the second and 1,000 mn in the third year is envisaged. These amounts are to be supplemented by annual payments of a further 50 mn UA from the Agricultural Fund<sup>13</sup>. The idea is that the Agricultural Fund shall for the first time participate in the financing of projects outside farming and the food industry. The contributions of the Agricultural Fund are to be used to create jobs for farmers and their children to seek employment in other spheres after having given up farming due to the agricultural reform.

In addition to financing common regional projects via the Regional and the Agricultural Funds, the Commission also plans the foundation of an "Association for Regional Development". This Association is to provide information about possibilities for investment in areas in need of help and contact firms which may like to take advantage of the opportunities offered. The Association is further expected to assist investors with technical aid and also temporarily take up minority interests primarily in small and medium-sized businesses operating in the backward regions. As far as the Association has to issue loans for this purpose in the capital market, these loans are to be secured by a European guarantee system for regional development<sup>14</sup>.

### Corner-stone of the Monetary Union

The common regional policy outlined above exists so far only on paper. Its realisation would be an important step on the way towards an economic and monetary union. Its aim is in the final analysis

<sup>12</sup> Cf. Wolfgang Stabenow, "Europäische Regionalpolitik" (European Regional Policy), in: *Mitteilungen zur gemeinsamen Agrarpolitik* (Information on a Common Agricultural Policy), No. 2, March, 1973, appendix, p. 4.

<sup>13</sup> Cf. Reginald Dale, "EEC Regional Fund may be set up at 2,200 m. units", in: *Financial Times* No. 26120, July 27, 1973.

<sup>14</sup> Cf. Commission of the European Communities, "Mitteilung im Hinblick auf die Entscheidung des Rates zur Regionalpolitik der Gemeinschaft" (Communication regarding the Council's decision on the Community's Regional Policy), Brussels, May 31, 1972, Com (72) 530 final, appendix.

<sup>11</sup> Cf. Anthony Robinson, "Clash of claims on the EEC Regional Fund" in *Financial Times*, London, No. 26140, August 20, 1973, p. 4.

to bring the structures, levels of development and the long-term trends of the national economies of the nine member states into line with one another. By reducing and finally levelling out existing differences an important precondition is created for a balanced flow of payments between individual regions and states of the European Community.

Only when payments are in balance will it be possible to narrow permanently the margins inside which the currencies of the EC-states may fluctuate. To achieve such an equilibrium in the balance-of-payment position, it is not enough to iron out the structural discrepancies that exist between the national economies of the various member states; equally important is it do away with the differences that exist in their short and medium-term economic development, caused in the main by their own divergent short and medium-term economic policies. The harmonisation of these policies is therefore the second essential precondition for a successful creation of an economic and monetary union.

As with regional policy, harmonisation of economic policies exists so far only in the form of draft programmes of the Commission, while the governments, being as yet unable to take the plunge and agree to a concerted action, for the most part content themselves with declarations of intent. The Federal Republic of Germany has now taken a new initiative in this direction. With stability as one of its main aims, the German Government has always been one of the advocates of a harmonised policy for the control of cyclical fluctuations. Now it seems to be determined to get the Community at long last to agree on some concrete measures. To give greater emphasis to its endeavours in this direction, it has made its agreement to the establishment of a regional fund and thus in the last analysis a common regional policy dependent upon an agreement to co-operate with greater vigour in the field of monetary policy. For the ultimate fate

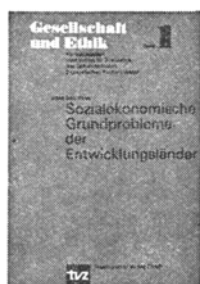
of regional policy this attitude is in so far decisive that the Federal Republic will probably have to shoulder the greater part of the financial burdens the realisation of that policy will entail. By contrast, Great Britain, Ireland and Italy are the countries which stand to profit most by that policy.

However, these states do not even belong to the common monetary "snake". Their currencies are floating in isolation from all the others and their governments have been showing little inclination to return in the foreseeable future to bloc-floating and, beyond that, to a closer cooperation in matters monetary and economic. For the time being, these states prefer the advantages of monetary and economic independence to the benefits they may expect from receiving regional aid funds from the Community.

### Regional Policy without Future?

In view of these relatively hardened fronts, it seems questionable whether the common regional policy, which was to be initiated by the end of this year, will in fact become a European reality. The great importance attributed to it by a good third of the EC-states and its close links between regional and economic and monetary policies make a decision on regional policy at the same time a decision on whether or not the Community is to progress further towards integration. Should the efforts to reach agreement on regional policy turn out to be a failure, the upshot would not just be an adjournment of regional-political initiatives; it would mean that the Community would embark upon a phase of stagnation, if not decay. As none of the nine governments concerned appears at present prepared to run that risk, there is still some hope left that the turn of the year will after all witness the Community's transition to the second stage on the road to economic and monetary union and thus also the first binding decisions in the matter of a common regional policy.

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